

BANKING PRODUCTS AND SERVICES MARKET: THE GLOBALIZATION CHALLENGES

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Banking globalization represents that stage when the banking services have a world spread area, becoming universal. The universal banking services imply the harmonization of the banking settlements, being followed by the cancellation of the barriers from the path of a competition opened up to every market, the increase of the currencies number they operate with and the foundation of headquarters abroad.

In the context of the Romanian banks integration as part of the European Bank System, as well as the participation in the European unique market, there appear the necessity for certain operational changes that would favor the development and diversification of some modern banking products and services at European standards. Besides, even *The Medium Term Development Strategy of the Bank System* elaborated based on the *National Strategy for Medium Term Economic Development in Romania* has an objective that pursues the diversification and the increase of the quality of the financial-banking services (following mainly the integration of the banking services into those offered by the operators of the financial market as well as setting-up conditions for the development of products and services that concord with the market requirements and for the implementation of modern products and services of the type of financing hybrid instruments, derived financial instruments, e-banking services, etc.). Therefore, it is more and more requested the operation with leasing, factoring, contract prices, mortgage credit, e-banking, etc., while

the cash payment in economy will be reduced. These operational modifications that are performed by the accumulation of the technical means and informatics allow the acceleration of the retributions. The operational changes represent a necessity for the Romanian banks as, at the same time with the integration, they are going to enter the competition for funds with banking companies from the developed states in the EU, which are very strong and have extended experience in economical market structures.

The banks of the future will evolve in the banking concentration that differs from one country to another (bank holdings, corporations and bank syndicates); this concentration is expressed in the increase of the assets volume, especially the resources, conferring the banks the development of the financial power, an increased innovational capacity, income outlets, the reduction of the costs in order to maintain the markets and enter new ones all around the present day world, when the competition become global.

Another evolution refers to the specialization in terms of the deserved market segment. At the same time the progress in informatics will lead to the operational integration at an international scale. Another aspect of the “new order” in the banking world is the tendency to generalize the banking operations, as a result of the fiery confrontation between banks and non-banking institutions that perform banking operations. Besides the collecting, depositing and credit agreeing operations, it implies that the banks

should also engage in other type of operations, diminishing its attribute of traditional commercial bank, joining the commercial activity with the investment process and performing operations related to insurance, portfolio, management and different financial innovations characteristic to the present epoch. The banks must begin constant financial efforts in order to cope with the evolution of the technologies and informatics; they must become preoccupied by promoting new banking services and products and must pay special attention to the anticipations, in order to be able to convert any new direction into a development opportunity.¹

Without any doubt, we are in the middle of a transformational time when the revolutionary changes in technology and communication cause major modifications in the way all the organizations, and especially the banks and financial institutions, develop their activities. During this time of decentralization, of electronic and digital technology, an ever larger number of companies will admit the importance of providing information for the development of the bank activities, still these companies will not necessarily be banks; they may be information brokers, retailers of a certain type, companies for spending the spare time or technological firms. The tendency has already been materialized by the extent of the number of non-banking entities that enter the banking market. That is to say that the non-traditional banks competition, the revolutionary evolutions in technology and the clients' incremented solicitations work together for the transformation of the traditional banking department. The banks that want to survive and prosper in this new and challenging world must change radically and rapidly.

The pattern of the future retail banking activities appear clearly and

must not be underestimated: "The Virtual Bank", as it has been called, is defined as "a pattern in full development of the banking activities, in which there are involved more companies in order to create banking products and services where the clients can access banking services though various distribution channels". The term "virtual" implies the independence related to the physical location or, in certain cases, a banking activity without subsidiaries. The technology is the key-element of this evolution, allowing the electronic communications and financial transactions between the client and the bank. The presence of the client in the branch headquarters is not a necessity.² The present tendency is to increase the number of electronic banks, parallel with the diversification of the online services offered. If most of the large banks already stake on such a service, the rivalry pressure and the marketing tactics are heading towards the sideway diversification; UniCredit, BCR, ING Bank are already involved in the virtual services market targeted towards different categories of users.

The globalization stresses many of the processes in the money transfer industry, too. The economic power spheres are changing, as well as the trajectories of the financial processes. For example, the markets that formed the "platform" of the money transfer activities in Western Union 30 years ago can be found now on the 10th position and even lower, while economies we have never expected have registered spectacular ascension, assuming the lead of the top-ranking platoon. The structural modifications of the market are another obvious element. Countries that some years ago were bare receptors have become the origin regions of the remittent. Most of the banks concentrate their attention on the top consumers,

¹ Opritescu Marin, coordinator, *Management of Banking Risks and Performances*, Universitaria Craiova Printing House, 2006, p. 35

² Odobescu Emanuel, *National and International Banking Marketing*, Sigma Printing House, 2000, p. 195

neglecting a very large number of customers that are to be found at the base of the social pyramid. The experience proved that the business oriented towards the “middle and low end clients” may attract profits even higher than the one deserving the very rich ones. There is a site: www.westernunion.com that allows electronic transfers; a credit card is used for the transfer. Including this way, the remittent reaches the addressee in just a few minutes. The value of the amount transferred on the site increases annually with approx. 40%³.

The globalized economy offer favorable perspectives for the bank sector, but it also imply a permanent challenge for the bank companies. Against the background of the international financial flows it is obvious an additional solicitation for specialized banking services. If the clients' need is changing permanently there appear new and non-traditional competitors and there are opened perspectives for new distribution channels development. *The management of the distribution channels* represents one of the main tasks of the banking companies in the context of the globalization. The development of the bank informatics has led to fundamental changes in the banking service distribution, by means of creating new channels that resort to telephonic and electronic connections.

In the future, the banks will plan a spectacular development of the distribution channels, including automatic pay-offices, bank-booths, debit cards, call-centers, electronic-banking services by means of “intelligent” cards and the home-banking through internet. Despite this development of the alternative channels, we consider that the subsidiary/branch is the main distribution channel for the bank products and services and that it will continue to play an important role for many banks. Its role

will change by stressing the personalized bank services, allowing the client to perform more routine transactions by means of the electronic distribution channels. Many clients still prefer the relation with the branch, considering that it presents advantages that differ from the “impersonal” telephonic and electronic services.

The role of the subsidiary, as the main distribution channel, the design and the organization were completely transformed. Thus, through the size of the space destined for the clients there have been facilitated conditions for getting information related to the banking products, which are reflected in the increase of the chances for selling the products and services; at its turn, this leads to the increase of the market and profitability segment. The constructive solutions for the interior of the bank buildings are changing, demonstrating the attitude modification in attending the clients. Nevertheless, the constructive option must assure a good development of the main functions of the bank activity. Moreover, a special attention was paid to the space arrangement of the branches and their efficient hierarchies have evolved. In the future, the permanent rationalization is imminent, as the structure of the optimum network is constantly changing, due to the progress of the technologies and of the delivery and distribution systems in full development and the branch dynamism as distribution channel will be emphasized.

Still, larger institutions admitted that there is neither efficient, from the point of view of the costs, nor necessary to offer uniform service levels along the entire branch network.

The processing and information appearance created possibilities for the reduction of the branches' dimensions. Throughout the technological development, as a variant of the automatization process, there is a tendency towards the extension of certain automatic subsidiaries of the

³ www.westernunion.com

“bank-booth” type, where there must be offered services such as: ATM, currency exchange machines, phone connection and interactive video screens. The units of the booth-type will allow the banks the easy network extension and the attainment of the main distribution objective, that is obtaining spaces in the best locations. In case the notion of booth-like subsidiary will prove to be successful, it may represent another significant change element as part of the networks.

It would not last long until the automatic pay-offices of the banks, the touch-image processors, as well as of those cashing cheques and opening accounts. Their location will vary and will include stations, supermarkets, business centers, as well as any other place where people use to regularly gather.⁴

The operating frame of the banking systems has suffered important changes under the impact of the progress registered in the informatics technology. Today, the financial and banking industry adapt to new markets, under the impact of globalization and technological explosion, becoming attributes of the economic reality. The conditions of the integration of the financial markets in the new economy on the ground of the informatics technology development, gives a specific role to the electronic banking services, with the perspective of accelerated development in the future, due to the main advantages offered.

The rapid development of the new payment forms will reduce the need for cash. Up to now, the introduction of the *debit cards* and *credit cards* proved to be an enormous success.

All over the world, the cards industry is being revolutionized. In Netherlands, the banks are in full process of introducing on a large scale the electronic “wallets”. The application of the

“intelligent” card technology for the funds transfer determines the premises for the substantial reduction of the paper and metal money quantity that are in circulation. The extension of the payments by means of the cards became of vast proportions in the Occident and lately in the other countries of the world. This fact determined the reduction of the circulation of money, which did not exceed 20% from the volume of the transactions. Passing to euro offers to the “intelligent” cards the great chance to occupy the central position in the fund transactions. The more electronic money will be used, the easier the introduction of the new currency.⁵

The beginning of the third millennium also represented the start for a new process that will lead, in just a few years, to the total replacement of the cards with magnetic strip with smart-cards. This type of cards offers an increased level of safety for the users, being impossible to alter or copy the stocked information. Projected with chip technology, the card will operate as a bag previously filled with money that can be used for payments and the balance account will reduce along with the acquisitions.

The cards can be refilled at automatic pay-offices or at special terminals inside banks. The microchip technology will continue to become wider and wider every day. The global process of migration towards the chip cards meets a favorable moment, but it will just after some years that it will be finished.

The high level of safety – a well known reason of the migration towards the chip cards, is cast into the shade of the *optic card*'s performances. The optic card is made of two layers, between which there is introduced an optic strip, based on the CD-ROM technology. It can be scratched, or holed, but the

⁴ Opretescu Marin, coordinator, *Management of Banking Risks and Performances*, Universitaria Craiova Printing House, 2006, p. 37

⁵ Anghel Marcel, *Financial Banking Management*, Matrix Rom Printing House, Bucharest 2005, pp. 148

information stocked may be read all the same. The safety is offered precisely by the impossibility of altering the information and by the possibility of comparing the card bearer's identity with the one of the user. Moreover, the optic card has a memory much more extended than the possibilities of the chip. The extended memory allows stocking including the image of the fingerprint or the possessor's retina, so that the identity theft will become impossible. Furthermore, the safety is strengthened by the stocking on the card of the user's hologram and of a file that would contain personal identification information. The investigations needed for such a project are insignificant, comparing with the advantages obtained. The only necessary modification at the level of banking ATM and POS resides in the installation of an optic strip reader. In addition to that, the high capacity of the memory will allow the banks to offer a larger range of services, as the use of the card depends after all on the financial units' creativity. Despite all these, taking into account that at international level it has barely been implemented the chip, Visa and MasterCard, it is hard to believe that the large organizations (without which the generalized implementation of the optic card for payment cannot be imagined) will embrace this project on a medium or short term.⁶

No doubt, there is a segment of clients whose needs must be fulfilled by services outside the branch. Taking into account that the clients are also subjected to a environment in a permanent change, the time factor plays an ever more important role in the decision to use a new service or product. Due to a prolonged working time, the bearers do not find the time to use the banking services. It is also due to the fact that most of the banks have a limited

program with the public. The easier the clients access their accounts, the higher the competitive advantage. Many banks have reached this conclusion and, consequently, they offer new products on the market, known under the generic name home-banking. In this products category one can meet one-goal-oriented components: the possibility offered to the client to access the bank service offer from home, his displacement to the headquarters of the bank he opened the account being useless.

The globalization of the banking market by means of the informatics, favored the fund movements, annulling the geographical distances. Thus, the credit granting and any kind of speculations have become international activities, as the "market barriers" have been canceled. Meanwhile, the technological changes were accompanied by the appearance of new financial products and instruments; the banks represented one of the areas with the most intense manifestation of the creative processes. Hence, the development of the electronic commerce requires the adjustment of a proper e-banking system, which contributes to the creation of world-spread networks. The most rapid development tendency is held by the electronic commerce through the internet, its internet banking components and mobile internet banking.

Electronic banking is the first off banking service that spared the businessmen of their daily trips to the bank. The electronic banking allows the user either from his office or from home (home banking) to operate in the bank accounts. The instruments of the electronic banking or home banking type are based on a software application of the emitter, installed at the office of the bearer, on an individual or in network work station. For the companies with intense activity, the electronic banking proved to be of real help.

The future of the trade is definitely the electronic trade. Under these conditions, they must be prepared

⁶ Opriteanu Marin, coordinator, the above mentioned work, p.37

to facilitate their clients the access to the e-banking services in order to perform current operations (the clients' time is spared and the banks' costs and duration of the processing are decreased).

For the clients oriented towards the electronic commerce there are solutions that once the invoices or money orders are issued for the business partner, these can be transmitted at the same time to the bank. The transmission and processing of information must be done under maximum security conditions by: encrypting and compressing the information, code systems, access passwords, limited access competences, on levels, to the functions of the system. For the future, it is important that the companies obtain loans or other financings, using e-banking services. For security reasons nevertheless, this can become a generalized practice.

Internet-banking must not be seen only as a simple extension of modern products but also as a way of decreasing the costs of transaction, doubled by unlimited geographic coverage.

Internet banking increases more and more the degree of liberty of those who command payments and transfers.

Not only that these people are no longer tied in their relationship to the bank to going to the pay desk, but they don't even have to be at the company's headquarters. If when it comes to electronic-banking – the service can be accessed only from a computer within the company or from the domicile, internet-banking can be used from any computer connected to the internet, regardless of its location. Practically, the user of the service does not have to own a personal computer, an internet café will do. Besides, the operations that can be done are the same as in the case of electronic-banking. The banks have already started to skip the primary phase of electronic banking going directly to banking. Still, there is one essential problem occurring when this type of service is implemented: the security of internet communications.

Mobile-banking, cutting edge technology concerning the provision of financial services promises to revolutionize the way transactions are made, offering to the businessmen a total independence regarding the contact with the bank. The banking transfers, money orders, transfers as well as the consultation of operation history can be done from the mobile phone. More and more banks from Central and Eastern Europe take the example of the West in developing online banking systems. The reason is the same: the existing request from the clients for full-time complete and accessible services, the opportunity to serve more clients without parallel development, much more expensive of a network of branches and the pluses of effectiveness in processing transactions.

The banks will have to take into consideration, the numerous risks it is exposed to, that have not been fully evaluated and to study at the same time the effects of bank income as a consequence of expanding electronic banking activities. In a not very distant future, the information technologies will change completely the current configuration of traditional banks. More and more services will be automatized, the clients will prefer to make themselves the operations via internet or phone, so that the new bank will rather turn into a business center. The present traditional bank will turn into a technical point of work, a sort of bank without physical clients.⁷

Implementing some new marketing and management techniques as well as the automatization of most operations that take part, will allow banks to extend and diversify their activity.

The continuous process of enriching the range of products and services offered by the banks has been favored by a series of factors, among which the evolution of information technology constituted an important

⁷ Marin Opritescu, coordinator of the quoted work, p.40.

vector. The information technology continues to alter the nature of banking and finance activity by introducing new products and services that aim at increasing the banks' capacity to serve their clients.

The financial innovations offer new options within the context of the financial-banking phenomena occurring worldwide. In the last decade the interest for derived financial products and markets associated to them has increased tremendously. Important financial innovations are the movable values used on the international market of capital: Eurocurrencies, Eurocredits, Eurobonds, etc. These constitute instruments of insurance against financial risk (the so-called *hedging*) and a means of speculation as well.

Presently, we take part to important reconsiderations of banking operations. Thus, have appeared *products destined to the capital market*, for example the GDR product - Global Deposit Receipt – “product destined to the capital market, by which parts of a bank or company's capital can be acquired”⁸ or to futures contracts, option type operations, futures or swap according to rate, the currency exchange, all these aiming to serve the capital investor trying to avoid the risks and to favor attractive opportunities.

Also the personalized products offered to the clients of banks type *private-banking* have been perfected presenting a strategy of clientele fidelization to a higher standard of incomes, the banker coming in as bank specialist who identifies himself with the client, offers him the banking products and services that are most appropriate for the nature of his business.

Most banks of local and foreign capital have developed the concept of integrated financial services, offering at

the same time⁹ besides the banking products and insurance services, brokering on the capital market, leasing. Important to be mentioned as well is the phenomenon of *bancassurance* representing a merge between products and services delivered to the clients by the companies of insurances-reinsurances in collaboration with commercial banks. The clients benefit from diverse insuring products, based upon an agreement between the insurance company and the bank, the beneficiary belonging to both sides, and the banks turning into strategic partner for the insurance-reinsurance companies.

The dominant form of manifestation was represented by the selling of life insurances at the pay desks accompanied by a generally limited cooperation, regarding damage insurances and other financial services. Generally, as a consequence of the banks' initiative, this phenomenon has extended to other owners of post office networks and of savings banks. In Europe, this phenomenon was generalized and amplified in the 90s' of the last century, due to a considerable increase of the purpose of financial markets, their internationalization and generally in search for a more effective administration of the great active portfolios. Thus takes shape an industry of services that includes life insurances, pension funds, individual insurances, credit for consume, administration of actives on the account of third parties. The purpose every day more important of *bancassurance* is emphasized as well by the fact that 70% of insurance premiums gained by the insurers specialized in insurances type life from Spain (approximately 17 billion USD in 2001) comes from the *bancassurance* sector, and in Belgium and France this sector owns 56% respectively 62% of the total revenue on the internal market of assurances. In the chart below is

⁸ Trenca Ioan, *Banks, bankers, banking culture and civilization*, Magazine, Finances Challenges of the future, Universitaria Craiova Publishing House, 2003 p.105

⁹ Dragan Anda, *The banks aim to the retail banking sector*, BIZ Magazine no.9, July 23, 2004

presented the market quota owned by each type of distribution channel in the main countries of Europe within the bancassurance system:

Table no. 1.1. Market quota owned by each type of distribution channel in the main European countries, within the bancassurance system

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Country	Banc-assurance	Traditional channels	Direct distribution channels
Spain	72	21	7
Italy	63	28	9
France	62	32	6
Belgium	56	30	14
Germany	17	77	6
Great Britain	12	86	2

Source: www.bis.org

Developed by the alliances formed between insurance companies and commercial banks, this modern channel of distribution did not enjoy the success expected in countries such as Great Britain, in which life insurance market is structured around brokering companies or in Germany where the purpose of traditional distribution channels is still predominant, approximately 77% of the premiums coming in this way.

The strategic alliances with diverse merchants or insurance

companies, together with channels of alternative distribution, not only do they lead to the diversification of selling banking services, but they also modify the structure of costs. The more a bank succeeds in going in this direction, the better prepared it is for the future. Banking services are more or less comparable; the most important competitiveness criterion remains the price. The more a bank can better control the costs; its position on the market will be more solid. Due to the harsh competitiveness for clients, the use of new channels is compulsory so that the banks improve their quality standard of the services offered, increase their market quota and decrease the costs and make the profit bigger.

In conclusion, in the context of the participation on the unique European market, the Romanian banks have the obligation to diversify and develop the products offered and their distribution channels. They have an important role in maintaining and attracting new clients and in the increase of the profitability. This is a major necessity. It is imposed by the integration into the European banking system and implicitly by its participation in the competition for funds with banking companies of the developed states.

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